

BILL # SB 1520

TITLE: tax credit; long-term care insurance

SPONSOR: Allen

STATUS: As Amended by Senate HEALTH and FIN

PREPARED BY: Leatta McLaughlin

FISCAL ANALYSIS

Description

Beginning in FY 2008, the bill would allow a taxpayer to claim a nonrefundable individual income tax credit for premium costs associated with long-term care insurance for the taxpayer, taxpayer's spouse, parent, parent-in-law, and other dependents. The tax credit is limited to either 10% of the premium amount or \$500 per person, whichever of the 2 amounts is less.

Estimated Impact

The bill is estimated to reduce General Fund revenues between \$(2.1) million and \$(26.5) million beginning in FY 2008. The cost can not be determined with certainty due to a lack of data. There could be an additional revenue loss if the bill encourages those who do not currently have long-term care insurance to purchase it.

The Arizona Department of Insurance (ADOI) cannot determine the impact of the bill.

Analysis

Long-term care insurance provides services that help with activities of daily living, adult day care, nursing home care, home health care, and respite care. Long-term care insurance costs primarily depend on an individual's age and coverage benefits. The older an individual is when they purchase a policy and the more benefits that will be received, the higher the premium will be.

Based on a marketing survey, ADOI estimates approximately 92,800 Arizonans had long-term care insurance in 2004. Although ADOI does not have detailed information on the long-term care population in Arizona, the New York Department of Insurance reports that approximately 10% of individuals with long-term care insurance in that state are under the age of 45, 15% are between the ages of 45-54, 35% are between the ages of 55-64, 30% are between the ages of 65-74, and 10% are over the age of 75. The National Advisory Council for Long-Term Care estimates the annual cost for long-term care insurance for this age range to be between \$55 to \$9,900 depending on the age of the person when they purchase the insurance and the type of coverage. Applying these New York and National Advisory Council figures to the Arizona long-term care population, it is estimated that the total amount annually spent on premiums in Arizona is between \$21.3 million and \$310.9 million. *Table 1* gives details of annual average long-term care insurance premiums according to age.

Table 1					
Average Annual Premiums According to Age Groups					
Age	Participants	Min. Coverage Annual Premium	Min. Total Premiums (\$M)	Max. Coverage Annual Premium	Max. Total Premiums (\$M)
Under 45	9,280 (10%)	\$ 55	\$ 0.5	\$1,300	\$ 12.1
45-54	13,920 (15%)	75	1.0	1,450	20.2
55-64	32,480 (35%)	128	4.1	2,150	69.8
65-74	27,840 (30%)	288	8.0	4,200	116.9
Over 75	<u>9,280 (10%)</u>	835	<u>7.7</u>	9,900	<u>91.9</u>
	92,800		\$21.3		\$310.9

The credit is capped at 10% of the premium or \$500, whichever is less. For the minimum estimate, this would result in a General Fund revenue loss of \$(2.1) million, since all credit takers would only be able to claim 10% of their premiums. The maximum estimate would result in a General Fund revenue loss of \$(26.5) million, since some of the credit takers would be limited by the \$500 cap. There could be additional revenue loss to the state if the bill results in more people purchasing long-term care insurance.

Local Government Impact

The Urban Revenue Sharing formula distributes 15% of income taxes collected two years prior to incorporated cities and towns. The bill, therefore, could reduce these distributions by approximately \$(321,700) to \$(4.0) million in FY 2010.

2/28/06